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SUBJECT: HCMC BANK AND FUND MANAGERS EXPECT INVESTMENT TO SLOW

REF: HANOI 45 "VIETNAM: RESPONDING TO THE GLOBAL FINANCIAL CRISIS"

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11. (SBU) Summary. Investment into Vietnam will slow significantly in 2009 as a result of the global economic downturn, according to Ho Chi Minh City financial sector analysts. Virtually every corporate client is postponing or slowing implementation of their existing investment plans, multinational banks told us, but few are cancelling plans outright. Financial sector analysts expect actual investment to be in the \$5-7 billion range in 2009, down from \$11.5 billion in 2008 and well shy of the \$10.5-13 billion that the GVN expects to draw. Looking at foreign indirect investment (FII) flows, portfolio investors say they already adjusted their holdings during Vietnam's macroeconomic struggles in mid-2008, and will likely stay neutral in 2009. While these investment inflows represent a significant drop from the blistering pace of the last few years, they are nonetheless relatively healthy figures that represent a return to the more modest pattern of capital flows typical of earlier years. Analysts expect investment activity will pick up again once investors see signs of renewed consumer spending in the United States, Europe and Japan. End summary.

12. (SBU) In late January and early February, HCMC and Hanoi EconOffs met a wide range of multinational banks, local banks, non-bank financial institutions, securities companies and investment funds in Ho Chi Minh City.

FDI Flows Will Slow, Not Stop, in 2009

13. (SBU) Most Ho Chi Minh City (HCMC) financial sector analysts are focused on foreign direct investment (FDI) as a key indicator of Vietnam's economic health in 2009 and expect between \$5 and \$7 billion USD in actual FDI flows this year. Even this amount would qualify as a success in current conditions, said a local investment fund manager, but it's possible because Vietnam continues to show long-term potential. Still, \$5 to \$7 billion USD falls short of the \$10.5-13 billion the GVN expects to attract in 2009 (reftel). One multinational corporate banking services provider stated that "almost every corporate customer will defer their 2009 investment plans in Vietnam." Even high-profile projects that are near completion delayed their opening date, according to one large European bank, including the Paragon department store in Phu My Hung Company's "Saigon South".

14. (SBU) Many were careful to draw a distinction between pledged investment (as announced in provincial investment licenses) and

the amount of investment actually implemented. The Vietnam General Statistics Office (GSO) says these were \$60 billion and \$11.5 billion respectively in 2008. The GVN now forecasts that new investment commitments will go down by 67 percent to \$20 billion in 2009, and many of Vietnam's largest investment fund management companies believe that actual investment may drop even more. "Looking back at the ten biggest FDI projects announced in 2008," the manager of an investment fund explained, "we'll be lucky if three actually happen -- real estate and steel, forget it. Oil, maybe. Some of the manufacturing investment will come through." Other fund managers agreed, with one adding "the ten biggest projects account for 70 percent of the pledged FDI in 2008."

15. (SBU) Fund managers told us that a few choice companies with solid domestic markets and cash on hand are investing now, because the cost of construction has gone down significantly ("suppliers are tripping over each other to offer the lowest price on construction materials") and the Government of Vietnam (GVN) is quietly "becoming more helpful than they have been in recent years." Labor and construction material are increasingly affordable, and fast-moving consumer goods production for the Vietnamese market in particular is still going strong. Still, the same analysts point out that this kind of investment is financed by cash in Vietnam and will not draw additional dollars into the country.

Portfolio Investors Look Hard for a Silver Lining

16. (SBU) "There's nothing good to say about Vietnam's equity markets right now; there just isn't any money flowing in," said one fund manager. He adds that a recent HSBC report recommending investors stay away from Vietnam has added to the current chill. Even "optimistic" fund managers think it would take GVN intervention (e.g., official moves to prop up the Ho Chi Minh City Stock Exchange) to bring in any new foreign portfolio investors in 2009, and even then just \$1-2 billion USD

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might come. "Vulture (investor)s " do still circle though HCMC looking for good investment opportunities, according to one banker, but transactions are happening. "Vietnam is still a good long-term play, especially for western institutional investors with a long time line who don't expect to make money in the short or mid-term," another banker added. Additional state-owned enterprise (SOE) equitisations and listings on the Ho Chi Minh City Stock Exchange (HOSE) would help renew interest in Vietnamese equities, said a number of securities firms, and it would be good for the economy, especially if it means less government support for SOEs like EVN, VinaCoMin and PetroVietnam.

17. (SBU) Many of the investment funds prominent in Vietnam were humbled last year. One of the biggest saw its net asset value drop 54 percent in 2008. Their manager summed up that fund's situation as "not good, but better than most". His fund still has cash on hand (\$155 million) and is considering making acquisitions at a 30 to 50 percent discount from last year's inflated valuations. Value of the HOSE is so low these days that anything a major player does affects the market, he added. Raising additional money is a challenge now, but the fund expects to be able to pull together another \$500 million infrastructure fund and to cooperate with a U.S. investment bank to raise funds for a \$500 million real estate fund.

18. (SBU) Some small sectors are so underdeveloped in Vietnam that they continue to attract money. For example, one technology venture capital fund remains optimistic. The fund is looking to invest the rest of their \$150 million technology fund and they also report getting positive feedback on a second \$200 million fund focused on middle-stage Vietnamese technology companies. Japanese money, in particular, came into their fund late in 2008, according to the fund's public relations manager. The downturn is also helping the fund to be more active in streamlining the companies they've taken stakes in, "when the papers are full of layoffs it's easier to make cuts."

That Signpost up Ahead

¶9. (SBU) Everyone we talked with was confident that Vietnam's economy will turn the corner when consumers in the United States and Europe begin to buy again. Both Vietnamese and expatriates are thinking about a "summer dividing line" in June or July when the impact of the global downturn will become clearer. If -- admittedly, a big if -- the U.S. economy show signs of recovery by summer, many firms indicate that they simply plan to hunker down and press through the rough spot in order to remain positioned for a post-recession recovery. In this scenario exporters and investors say they will tough it out, and the impact (e.g., unemployment) will be negligible. If, however, the summer comes with no signs of improvement -- or, worse yet, a deepening recession -- then they will be forced to revisit fundamental decisions about mid-term investment and operating plans.

Comment:

¶10. (SBU) Looking back over the decade, the past two years saw a decidedly higher rate of investment than trend. The FDI and FII levels our interlocutors predict fall more in line with the pre-2008 surge trend in investment. The current economic downturn should be an opportunity for the GVN to use this pain to force through new reforms (e.g., a more independent central bank or accelerating the equitisation of SOEs), although as a prominent fund manager recently put it, "remember, the Vietnamese have a high threshold for pain." End comment.

¶11. (U) This cable was coordinated with Embassy Hanoi and the Regional Financial Attache in Singapore.
DICKEY